

GENERAL FUND 2001 BIENNIUM OUTLOOK

Introduction

The development of an estimated fund balance as of the end of the 2001 biennium is reflected in Tables 1 and 2. Table 1 shows the estimated fund balance adopted by the 1999 legislature. Table 2 shows the most current LFD estimate of ending fund balance, \$137.7 million.

The variations in the fund balance from one point in time to the next reflects the dynamic nature of the state budget. It is the result of changes in assumptions based upon economic conditions and changes in other financial data. More current revenue and disbursement information has been used when available.

1999 Session Legislative Projections

At the end of the 1999 session, the 2001 biennium ending balance was projected by the legislature to be \$51.5 million. Table 1 shows the estimated revenues and disbursements from the general fund as approved by the 1999 legislature. As pointed out in the Fiscal Report (June 1999), this projected balance included \$23.3 million for an undesignated general fund reserve and \$28.2 million for a reserve of tobacco settlement proceeds.

Table 1 Estimated General Fund Balance Based on Action By the 56th Legislature (In Millions)		
	Estimated 1999 Biennium	Estimated 2001 Biennium
Beginning Fund Balance	\$30.315	\$71.953
Revenues		
Current Revenue	2,102.493	2,224.587
Prior Revenue	(2.809)	0.000
Residual Transfers	<u>5.387</u>	<u>1.840</u>
Total Funds Available	\$2,135.386	\$2,298.380
Disbursements		
General Appropriations	1,983.012	2,068.375
Pay Plan Appropriations	0.000	21.903
Statutory Appropriations	77.745	87.591
Local Assistance Appropriations	0.000	72.814
Miscellaneous Appropriations	1.548	3.793
Supplemental Appropriations	11.459	0.000
Feed Bill Appropriations	5.564	5.438
Anticipated Reversions	<u>(15.319)</u>	<u>(3.135)</u>
Total Disbursements	\$2,064.009	\$2,256.779
Adjustments	0.576	9.931
Ending Fund Balance	\$71.953	\$51.532

GENERAL FUND 2001 BIENNIUM OUTLOOK

Special Session LFD Projections

Table 2 shows additional adjustments that were applied to revenue and disbursement projections in preparation for the special session.

There are a number of contingencies or potential impacts to the general fund balance that are not included in the numbers below. These, nonetheless, warrant consideration and are discussed in the following section.

Table 2 shows that revenue collections, primarily from individual income tax, came in at a higher amount than originally projected for fiscal 1999. In addition, disbursements were less than budgeted.

For the 2001 biennium, a significant increase (\$70.5 million) in individual income tax collections is projected based upon higher wage and capital gains income growth. Oil price changes also increase state revenue projections significantly. The largest downward adjustment is for expected supplemental appropriations of \$14.8 million. As Table 2 shows, the projected fund balance for the 2001 biennium is \$137.7 million. The net increase in fund balance from the regular session is projected to be \$86.1 million.

The following narrative explains the 2001 biennium adjustments included in Table 2.

Table 2 Revised General Fund Ending Balance (In Millions)		
	Adjustment	Estimated 2001 Biennium
Budgeted Ending Fund Balance (April 1999)		\$51.532
Fiscal 1999 Actual Adjustments		
Revenue Collections (Actual - Estimated)	19.817	
Disbursements (Budgeted - Actual)	4.625	
Fund Balance Adjustments	<u>13.278</u>	
		\$37.720
Estimated Revenue Adjustments 2001 Biennium		
Individual Income Tax (\$53.814+\$16.714)	70.528	
Property Tax & Non-Levy	(6.731)	
Corporation Income Tax	3.934	
Tobacco Settlement Payments	(6.708)	
Revenues Influenced By Oil Prices	10.811	
Reimbursable Fire Costs	<u>1.136</u>	
		\$72.970
Estimated Disbursement Adjustments 2001 Biennium		
Session Continuing Appropriations	(1.694)	
Statutory Appropriations	(5.069)	
Anticipated Supplementals(\$5.200+\$9.605)	(14.805)	
Crow Tribe Compact(June 1999 Session)	<u>(3.000)</u>	
		(\$24.568)
Revised Ending Fund Balance		\$137.654

GENERAL FUND 2001 BIENNIUM OUTLOOK

Fiscal 1999 Actual Adjustments

The general fund account ended fiscal 1999 with an overall fund balance improvement of \$37.2 million. Of this amount, **\$19.8** million came from higher revenue collections, **\$4.6** million from lower disbursements, and **\$13.3** million of unanticipated fund balance adjustments. A majority of the fund balance adjustment was due to a one-time accounting change.

Individual Income Tax

Estimated individual income tax revenue for the 2001 biennium increases **\$70.5** million from the amount estimated in HJR 2. The increase is the result of adjusting the growth rate assumptions for wage/salary and capital gain incomes and applying these rates to the calendar 1998 tax base. The actual calendar 1998 tax base was not available during the 1999 legislative session. The adjustments to the assumptions are as follows: 1) wage/salary income is estimated to increase 6.1 percent from calendar 1998 to 1999 and five percent thereafter; and 2) capital gains income is estimated to increase 15 percent from calendar 1998 to 1999, zero percent from calendar 1999 to 2000, and 10 percent thereafter.

Property Tax and Non-Levy

Property tax revenue to the general fund during the 2001 biennium is estimated to be **\$6.7** million below the amount estimated in HJR 2. The estimates during the session were based on tax year 1998 data whereas the new estimates are based on tax year 1999 property tax data. In addition, more refined estimates of the effects of the property tax legislation passed by the 1999 legislature are now available. The property tax legislation passed by the 1999 legislature was: 1) SB 200 (reduce business equipment tax rates from 6 percent to 3 percent); 2) HB 128 and HB 174 (reduce the tax rates on telecommunications and electrical generation property); and 3) SB 184 (phase in reappraisal for residential and commercial real estate, create exemptions and lower the class 4 tax rates)

Corporation Income Tax

The 2001 biennium general fund revenue estimate for corporation income tax is expected to increase **\$3.9** million when compared to the estimate contained in HJR 2. The increase is due to: 1) payment timing

differences of “one-time” revenue associated with the sale of electrical generation assets; and 2) higher than anticipated collections of “on-going” corporation income tax. The biennial estimate for corporation income tax excludes any state general fund impact of the divestiture of MPC assets and the purchase of qualifying facilities contracts (see page 8).

Tobacco Settlement Payments

It is estimated that the 2001 biennium proceeds from the tobacco settlement will be \$60.1 million, or **\$6.7** million less than anticipated in HJR 2. Montana’s payments are affected by a number of factors, including increases for inflation and decreases if the number of cigarettes shipped on a national basis declines. Due to large price increases for cigarettes in 1999, the number of cigarettes shipped declined 14.0 percent, more than the 2 percent anticipated by the states. This effect is cumulative, and when combined with moderate declines for subsequent years, settlement payments are expected to be less than anticipated.

Revenues Influenced by Oil Prices

Revenue to the general fund from oil production is expected to increase by **\$10.8** million in the 2001 biennium above HJR 2 estimates. This is the result of actual calendar 1998 and 1999 prices per barrel being higher than estimated and prices of \$22 per barrel for each year of the 2001 biennium.

Reimbursable Fire Costs

Although the Department of Natural Resources and Conservation has requested approval of a \$4.3 million wildfire supplemental (included in these projections), it is estimated that a reimbursement from federal agencies to the general fund will be **\$1.1** million.

Session Continuing Appropriations

In HB 1, the 1999 legislature appropriated general fund to pay for the operation of the 56th legislature, costs of preparing for the 57th legislature, and to pay for legislative retirement contributions. The legislature authorized these appropriations to continue into the 2001 biennium. It is estimated that **\$1.7** million will be expanded in the 2001 biennium.

GENERAL FUND 2001 BIENNIUM OUTLOOK

Statutory Appropriations

Statutory appropriation expenditures of general fund are anticipated to be \$92.7 million in the 2001 biennium or **\$5.1** million above the amount estimated in the Legislative Fiscal Report. The biennial increase is due to: 1) higher debt service payments from unanticipated timing of bond issues and higher interest rates, \$1.9 million; 2) flood and wildfire emergencies in fiscal 2000, \$1.9 million; and 3) higher police and firemen retirement payments, \$1.3 million.

Anticipated Supplementals

Table 2 includes a total of **\$14.8** million in supplemental appropriations for three purposes.

- Department of Environmental Quality - \$600,000 for bond payments. Cancellation by a surety company has left the state liable for the final zero coupon bond payment that must be paid by December 2000 to a trust fund established by the Billings Federal Court Consent Decree in 1996 for water treatment at the Zortman-Landusky mines.
- Department of Natural Resources and Conservation (DNRC) - \$4.3 million for wildfire costs. The legislature generally does not appropriate general fund to DNRC for anticipated wildfires costs. Rather, the department uses its general fund operating money to pay any costs and then asks the legislature to replace the amount through the supplemental process. The department has requested approval of a \$4.3 million wildfire supplemental for costs it incurred in fiscal 2000 for suppressing state and federal wildfires and to reimburse federal agencies for their support of state wildfires. This request includes \$750,000 for anticipated spring fires in fiscal 2000. The request excludes the \$1.1 million spent on wildfires in fiscal 2000 from the emergency statutory appropriation. General fund spent on federal wildfires is reimbursed to the state and deposited to the general fund, less the \$350,000 each fiscal year appropriated to the department. These figures do not include any potential fiscal 2001 wildfire costs.
- Office of Public Instruction - A supplemental of \$9.9 million is expected to be requested by the Office of Public Instruction for the 2001 biennium, for increases in BASE Aid to school districts.

Table 3 shows the components of the supplemental by type of expenditure and by fiscal year.

Table 3 OPI Distribution To School Districts - Supplemental 2001 Biennium, In Millions			
BASE Aid Component	Appropriated FY 2000	Expected FY 2000	Difference Exp - App
Direct State Aid	\$ 284.851	\$ 284.766	\$ (0.085)
GTB - School General Fund	117.598	120.237	2.638
GTB - School Retirement	19.258	21.079	1.821
Total	\$ 421.707	\$ 426.082	\$ 4.375
	Appropriated FY 2001	Expected FY 2001	Difference Exp - App
Direct State Aid	\$ 290.469	\$ 291.506	\$ 1.037
GTB - School General Fund	114.314	117.012	2.698
GTB - School Retirement	19.258	21.079	1.821
Total	\$ 424.041	\$ 429.597	\$ 5.556
	Biennial Difference		
Direct State Aid	\$ 0.952		
GTB - School General Fund	5.336		
GTB - School Retirement	3.643		
Total	\$ 9.931		

In fiscal 2000, guaranteed tax base (GTB) for the district general fund is expected to be above the appropriated amount by \$2.6 million. This is primarily due to some districts underestimating fiscal 2000 motor vehicle revenue and SB 184 reimbursements. GTB for the county school retirement fund is expected to be \$1.8 million above the appropriated amount due to a similar underestimation as well as increased retirement budgets.

In fiscal 2001, direct state aid is expected to increase by \$1.0 million because enrollment in fiscal 2000, which determines fiscal 2001 ANB, was 680 students above the estimate utilized during the 1999 regular session. This ANB increase will also increase GTB for districts' general fund. However, the majority of the expected increase in districts' general fund GTB requirements in fiscal 2001 will come about as a result of further underestimation of motor vehicle revenue and motor vehicle reimbursements. SB 260 reduced the tax rate on light vehicles to 1.4 percent from 2.0 percent of value beginning January 1, 2000. Thus, ignoring growth in vehicle value, districts will receive 85 percent of fiscal 1999 motor vehicle collections in fiscal 2000. In fiscal 2001, districts will receive 70 percent of fiscal 1999 motor vehicle collections. SB 184 requires school districts to anticipate for the

GENERAL FUND 2001 BIENNIUM OUTLOOK

2001 school year 75 percent of the motor vehicle collections received in fiscal 2000. This amount will be below what they will actually receive, which was the amount on which the state GTB appropriation was predicated during the 1999. In addition, SB 184 failed to require that schools anticipate the motor vehicle reimbursements that will be paid by OPI to districts in fiscal 2001.

Also in fiscal 2001, it is expected that the county retirement fund will experience the same shortfall in GTB as was seen in fiscal 2000.

Crow Tribe Reserved Water Rights Compact and Coal Severance Tax Settlement

In the June 1999 special session, the legislature passed SB 1 ratifying a reserved water rights compact between the Crow Tribe and Montana. The legislature also passed HB 1 implementing the compact and appropriating \$1.5 million general fund each fiscal year of the 2001 biennium for release of all claims of the Tribe's coal severance tax suit and cost-share obligations under the compact. Payments of \$1.5 million each fiscal year are to continue through the 2009 biennium. HB 1 requires that the **\$3.0** million earn interest at the same rate as the permanent coal severance tax trust fund until the money is paid into an escrow account and that these earnings also be paid into the escrow account. The earnings will probably be paid out of the general fund. Since the legislature has not appropriated any general fund for this purpose, any payments of interest will reduce the general fund balance. Department of Natural Resources and Conservation staff state that they are waiting for the tribe to agree to the selection of an escrow agent and they cannot pay the money until an agreement is reached. Since money in the permanent fund receives a greater rate of return than money in the general fund, the impact to the general fund increases with time.

One Time Revenues/Expenditures

The legislature has in recent biennia placed a priority on the issue of structural balance, or solvency, of the general fund budget. Structural balance is defined as matching the ongoing expenditures of government with ongoing revenues. While the legislature is required to adopt a balanced budget, and has adopted budgets in past biennia with near matches of estimated revenues

with approved expenditures, a structural imbalance can still occur if one-time revenues are used to fund ongoing expenditure levels.

The 2001 biennium legislative budget includes revenue estimates and expenditure authorizations that are nearly matched. However, there are a number of one-time revenues included in the projected balance that could result in a structural imbalance in future biennia if they are used to fund ongoing expenditures. The purpose of this section is to provide a summary of one-time revenues and expenditures in fiscal 1999, 2000, 2001. The legislature may wish to take this information into consideration in determining the level of fiscal issues it chooses to fund in the special session.

Table 4
General Fund
One-Time Revenue/Expenditures
(In Millions)

Source	Fiscal 1999-2000
Corporation Income Tax	
Generation Asset Sale	\$21.1
Touch America	8.6
LA Water & Power	5.3
Inheritance Tax	3.9
Tobacco Settlement	9.5
Fund Balance Adjustments	19.3
Unanticipated Reversions	4.6
One-Time Expenditures	<u>-16.4</u>
Totals	\$55.9

One-Time Revenues

The projected balance includes one-time revenue sources that will not be available in future biennia, with the most significant being capital gains tax revenues from the sale of Montana Power Company electrical generation assets and fund balance adjustments, as shown in Table 4.

One-Time Expenditures

The 2001 biennium budget includes \$16.4 million in appropriations designated as one-time only (OTO) by

GENERAL FUND 2001 BIENNIUM OUTLOOK

the legislature. This distinction is made so they are not built into the ongoing budget base. The legislature traditionally makes some provision for one-time appropriations in every budget. To the extent that the expenditures are truly one time, then temporary revenue can be used to fund these expenditures while still

maintaining a long-term structural balance in state finances. Therefore, these OTO designated expenditures are shown in Table 4 as an offset to one-time revenues. It should be noted that some of the expenditures are clearly for one-time uses, such as special election duties and special equipment purchases. In other cases, however, the OTO designation has been placed on programs that the legislature wishes to assess before continued funding is authorized and in some instances on programs that are ongoing.

SIGNIFICANT FISCAL ISSUES NOT IN 2001 BIENNIUM PROJECTIONS

Introduction

There are a number of potential fiscal impacts that are contingent upon non-fiscal assumptions. These include ballot issues that will or might go before the voters in the general election, the designated unreserved fund balance, the proposed sale of the energy business of Montana Power Company, a pending law suit regarding a College of Technology mill levy, and potential supplementals, among others. In the event that one or more of the following items become reality, there is a potential for impacts to the general fund balance. While these cannot be logically included in the projection of a fund balance, it is important that the potential impacts be identified and considered in the legislative deliberations of fiscal status. The table below lists these potential issues. It is followed by a brief discussion of each item.

Significant Issues not in Projections 2001 Biennium
<ul style="list-style-type: none">• Motor Vehicle Tax Initiative• Tobacco Settlement Initiative• Designated Unreserved Fund Balance• MPC Buyout of Major Qualifying Contracts• MPC Divestiture of Energy Business• College of Technology Mill Levy Legal Challenge• Department of Corrections• Potential Department of Public Health and Human Services Supplemental

Motor Vehicle Tax Initiative

The 1999 legislature passed HB 540 and referred the question of whether the act will become effective to the electorate. If approved in November (Legislative Referendum 115), the legislation will reduce the taxation of light vehicles and eliminate the sales tax on new motor vehicles beginning January 1, 2001. Also beginning January 1, 2001, interest earnings on money in the highways state special revenue account and the highway non-restricted account will be retained in the accounts rather than deposited in the general fund. If approved, deposits to the general fund will be reduced by \$4.2 million in the 2001 biennium.

Tobacco Settlement Initiative

Constitutional Initiative 82 (tobacco settlement initiative) has been approved by the Secretary of State and is currently being circulated to gain the necessary signatures to place it on the November ballot. If placed on the ballot and approved by the electorate, the initiative will amend the constitution to require the legislature to dedicate at least 40 percent of tobacco settlement proceeds to a trust fund. The principal of the trust fund will be inviolate, but a portion of interest and income from the trust will be available for the legislature to appropriate. Interest and income will be allocated: 1) 90 percent for tobacco disease prevention programs and programs related to the health care needs of Montanans; and 2) 10 percent deposited to the trust fund. The constitutional amendment will become effective when approved by the electorate.

Since tobacco proceeds for fiscal 2000 have already been received and deposited to the general fund, approval of this amendment will have no general fund impact in this fiscal year. However, approval of the amendment will reduce fiscal 2001 estimated general fund deposits by 40 percent, or \$10.1 million.

Designated Unreserved Fund Balance

Tobacco settlement proceeds are currently deposited in the general fund. For the 2001 biennium, HB 2 requires up to \$30 million of the proceeds in excess of the amount appropriated to be set aside for revenue stabilization in the general fund. The 1999 legislature appropriated \$38.7 million of settlement proceeds for the 2001 biennium. Since proceeds for the 2001 biennium are estimated to be \$60.1 million, there will be \$21.4 million of proceeds in the general fund that are not appropriated or set aside for revenue stabilization. The amount anticipated for the reserve at the end of the 1999 session was \$28.2 million.

MPC Buyout of Major Qualifying Contracts

Montana Power Company (MPC) is in the process of negotiating a buyout of contracts with three qualifying facilities, including Montana One-Colstrip, Billings Generation, and the State of Montana (Toston Dam). Montana Power Company estimates the buyouts may cost as much as \$400 million. According to company representatives, this would result in a tax deduction for

SIGNIFICANT FISCAL ISSUES NOT IN 2001 BIENNIUM PROJECTIONS

MPC in the year the buyouts occur, and the state general fund revenue loss (as compared to 1999 session projections) could be about \$16 million.

The state could recoup some of this revenue, however, if the companies with qualifying contracts incur increased Montana tax liability. Since the Toston Dam is a state facility, monies from the buyout of this contract would be deposited into a debt service account and not to the general fund.

MPC Divestiture of Energy Business

On March 28, 2000 the Montana Power Company announced “it will begin immediately the process of divesting the company’s multiple energy businesses, separating them from Montana’s Power’s telecommunications unit, Touch America”.¹ Touch America will be the surviving entity through which it will conduct its telecommunications business. Montana Power Company estimates the sale will take six to twelve months to complete.²

In an information session conducted by the Montana Public Service Commission on April 13, 2000, MPC officials noted the sales process will begin in May 2000. MPC officials also noted the divestiture will be accomplished through a stock sale and not an outright asset sale. As of December 31, 1999, the book value of the property, plant, and equipment that are a part of the businesses offered for sale was approximately \$1.5 billion.³

College of Technology Mill Levy Legal Challenge

While vocational education has existed in Montana since 1919, the current 1.5 mill local property tax levy for the support of colleges of technology in five counties has been in effect since 1980, when the colleges were still governed by local school districts. In 1987, the governance was transferred to the Board of

Regents. In 1995, when the university system restructured and three of the colleges were absorbed by the co-located four-year institutions, the 1.5 mill levy in the five counties was reenacted with the provision that the funds from the levy were to be deposited in the state general fund.

On December 20, 1999, two Cascade County taxpayers filed suit against the Montana Department of Revenue and others, alleging that the 1.5 mill levy is unconstitutional because it violates the equal protection, due process, and tax equalization provisions the U.S. and Montana Constitutions. The petitioners requested: 1) cessation of the mill levy; 2) return to taxpayers of all unlawfully collected taxes; and 3) attorney fees and court costs. If the court rules for the petitioners, the revenue loss to the general fund would be approximately \$1.0 million each year. In addition, refunds for an unspecified number of prior years at \$1.0 million per year and undetermined court costs might be required.

Department of Corrections

The department will have increased costs in the 2001 biennium of \$4.4 million due to: 1) higher costs for the male inmate population in fiscal 2000; and 2) the addition of 59.0 modified FTE and a probation and parole treatment plan added in the fall of 1999.

The cost of adding the modified FTE and probation and parole treatment plan is approximately \$3.4 million for the 2001 biennium. The department planned to fund these costs using vacancy savings, savings in the juvenile placement budget, and \$1.0 million from the contingency account appropriated to the Office of Budget and Program Planning. However, vacancy savings are not being realized in fiscal 2000 and the juvenile placement budget has exceeded the amount originally appropriated.

The department has not indicated the need for a supplemental in the 2001 biennium. However, to cover the increased costs of over \$4.0 million, the department will have to: 1) realize vacancy savings; 2) keep juvenile placement costs under control; 3) achieve savings in other areas of the department; 4) see a reduction in the percent growth of the inmate population; and 5) use the \$1.0 million contingency account appropriated to the Office of Budget and Program Planning.

¹ “Excerpts from Press Release”, Exhibit 99, Form 8-K, United States Securities and Exchange Commission, April 4, 2000.

² Item 5. Other Events, Form 8-K, United States Securities and Exchange Commission, April 4, 2000.

³ Ibid.

SIGNIFICANT FISCAL ISSUES NOT IN 2001 BIENNIUM PROJECTIONS

Potential Department of Public Health and Human Services Supplemental

Based on current spending patterns and DPHHS estimates of Medicaid costs, DPHHS could incur \$4.2 million in additional general fund costs above the amount of general fund appropriated for the 2001 biennium. The projected general fund supplemental is based on the following estimated cost over runs:

- \$2.4 million in primary care Medicaid;
- \$1.7 million at Montana State Hospital;
- \$1.6 million in foster care services; and
- \$0.5 million in other mental health services.

These potential increases are partially offset by a reduction in CHIP expenditures due to lower than anticipated enrollment.

The budget director has indicated that service reductions will be an option that is considered before the executive approves a supplemental request. However, DPHHS has not indicated how it will reduce either operating costs or services so that current cost trends are moderated and general fund spending does not exceed the appropriation. Without this information it is not possible to determine what the consequences of any reduction in services or costs will be, or if they are even possible. The special session of the legislature will not have the opportunity to review the potential policy choices that DPHHS would need to make to avoid a supplemental appropriation.

GENERAL FUND 2003 BIENNIUM OUTLOOK

Introduction

The purpose of this section is to provide an estimate (Table 5) of the potential ending fund balance in the general fund at the end of the 2003 biennium. It provides a look at the ability of present law revenues to support present law expenditure requirements. These projections are based on "broad brush" general assumptions of expenditure and revenue patterns from the most current available information and legislatively published projections. It must be emphasized that these projections are extremely preliminary, but provide some insights into what impacts fiscal actions in this session could have on the 2003 biennium and what current funding is available for fiscal policy considerations.

For the 2003 biennium, the ending fund balance is estimated to be \$226.0 million, an increase of \$88.3 million over the previous biennium. While funds available for the 2003 biennium increase by \$111.3 million or 4.6 percent, disbursements only increase by \$13.1 million or 0.6 percent. The total increase in disbursement results to a large degree from a significant decrease in formula-driven school funding due to dropping enrollment figures. No areas with significant caseload or population increases were identified. Also note that there are no known supplemental appropriations or adjustments to the fund balance for the 2003 biennium. It is important to note also that the amount for local assistance appropriations is based on a strict interpretation of present law. Legislative intent in the 1999 session was for reimbursement of at least \$37 million more in the 2003 biennium than is shown in Table 5. See the discussion of this issue on page 16.

Table 5 Estimated General Fund Balance Present Law 2003 Biennium (In Millions)		
	Estimated 2001 Biennium	Estimated 2003 Biennium
Beginning Fund Balance	\$109.674	\$137.654
Revenues		
Current Revenue	2,297.557	2,386.751
Prior Revenue	0.000	0.000
Residual Transfers	<u>1.840</u>	<u>(4.000)</u>
Total Funds Available	\$2,409.071	\$2,520.405
Disbursements		
General Appropriations	2,068.375	2,084.744
Pay Plan Appropriations	21.903	34.632
Statutory Appropriations	92.661	93.134
Local Assistance Appropriations	72.814	72.814
Miscellaneous Appropriations	8.487	6.794
Supplemental Appropriations	14.805	0.000
Feed Bill Appropriations	5.438	5.438
Anticipated Reversions	<u>(3.135)</u>	<u>(3.145)</u>
Total Disbursements	\$2,281.348	\$2,294.411
Adjustments	9.931	0.000
Ending Fund Balance	\$137.654	\$225.994

GENERAL FUND 2003 BIENNIUM OUTLOOK

Current Revenues

Table 5 shows that total general fund revenues are estimated to increase by \$89.2 million or 1.9 percent annually from the 2001 biennium. Although this annual rate is below historical levels of 2.5 to 3.0 percent, one-time revenues in the 2001 biennium plus the full implementation of tax relief measures in the 2003 biennium reduces the anticipated growth rate.

General Appropriations

General appropriations increase a net \$16.4 million for the primary reasons discussed below.

Department of Public Health and Human Services

The net cost of present law cost adjustments for the Department of Public Health and Human Services (DPHHS) is estimated to total \$21.6 million general fund in the 2003 biennium. General fund cost increases are net of \$9.4 million in reductions due to a projected decline in the state Medicaid benefit matching rate, and removal of one time only appropriations. The decline in the state Medicaid matching rate during the 2003 biennium is the most significant factor in general fund cost reductions, accounting for \$8.7 of the \$9.4 million.

The biennial cost of the most significant general fund present law adjustments is:

- Medicaid and Mental Health Services Plan caseload increases of \$17.6 million;
- \$3.7 million due to reductions in the amount of the Temporary Assistance for Needy Family (TANF) Block Grant that can be transferred to the Title XX Block Grant and used to support services for the developmentally disabled and foster care services;
- annualization of Children's Health Insurance Program (CHIP) start up of \$3.9 million over the biennium;
- foster care and subsidized adoption caseload increases of \$3.2 million; and annualization of provider rate increases and other program expansions in fiscal 2000 of \$2.5 million.

Corrections

General fund costs in the 2003 biennium are anticipated to increase by \$13.5 million over the 2001 biennium appropriations. The net of three factors causes the projected increase:

- An increase of \$13.7 million for projected male and female population increases. Females under supervision of the department are expected to increase from an appropriated level of 1,971 in fiscal 2000 (including 1,722 in intensive supervision and probation and parole) to 2,203 in fiscal 2003 (with 1,922 in intensive supervision and probation and parole). Males under department supervision are projected to increase from 6,851 (4,240 in intensive supervision and probation and parole) in fiscal 2000 to 7,776 (4,756) in fiscal 2003;
- An increase in outside medical costs due to the increases in inmate population; and
- Removal of one-time-only costs of over \$2 million for new license plates.

As stated earlier, the department has added 59.0 modified FTE and a probation and parole treatment plan in the 2001 biennium not included in the appropriation made by the 1999 legislature. The department must request continuance of these additions in new proposals. The total cost in the 2003 biennium would be about \$5.0 million general fund. This cost is not included in Table 5.

Higher Education

The 2003 biennium general fund projection of \$241.5 million for higher education is slightly lower than the estimated 2001 biennium expenditures of \$242.9 million (prior to anticipated reversions). The 2003 biennium projection is based on fiscal 2001 appropriations, adjusted for:

- Estimated reversions, including \$921,060 at the community colleges;
- Annualization of audit costs, additional staff at the Fire Services Training School, and the Family Practice Residency Program;
- Removal of one-time only expenditures for a performance audit, non-beneficiary students at the tribal colleges, and the Montana Beef Network totaling \$1.094 million; and
- A projected increase of 138 resident FTE.

The figures do not include the estimated pay plan, which is separated for specific examination.

GENERAL FUND 2003 BIENNIUM OUTLOOK

K-12 Education

The present law OPI distributions to school districts during the 2003 biennium are expected to be \$21.1 million below the distributions anticipated during the 2001 biennium (\$11.4 million below the appropriation). There are two reasons for this reduction in distributions. First, ANB will continue to decline during the 2003 biennium, by approximately 2000 students per year. Counterbalancing this reduction, districts will receive approximately \$6 million more in motor vehicle reimbursements associated with SB 260, which reduced the tax rate on motor vehicles from 2 percent to 1.4 percent.

The present law distributions by OPI to school districts are predicated on language in SB 184 that requires the present law base for the 2003 biennium to be calculated on the SB 184 reimbursements in the 2001 biennium. If state reimbursements to school districts are increased during the 2003 biennium, OPI distribution costs to school districts will fall further.

All Other Agencies

Other increases for inflation and other workload factors were approximated through application of a 1.5 percent increase to operating expenses and equipment.

One-Time-Only Costs

The 2001 biennium figures in Table 5 include appropriations designated as one-time-only (OTO) by the 1999 legislature, meaning they are not to be included in the base for 2003 biennium budget building purposes. Several of the OTO appropriations are clearly one time expenditures, such as the emergency contingency appropriation to the Governor's Office, costs to perform special election duties, and special equipment purchases.

Other OTO appropriations were made for programs established by the legislature for which they wished to evaluate progress before authorizing continuance, such as the Montana National Guard Challenge Program, the Agriculture Heritage Program, and the provision of funds to tribal colleges for non-beneficiary students. In some instances, appropriations were designated OTO for ongoing programs, such as Timber Harvest for Technology in the Office of Public Instruction. In addition, the legislature consistently makes some provision for OTO costs in every budget.

All appropriations designated as OTO, totaling over \$16 million over the biennium, have been removed from the 2003 biennium general appropriations numbers. However, for the reasons cited above, the resulting numbers should be viewed as being extremely conservative.

Employee Pay Proposal

Because implementation of the 2001 biennium pay plan is phased-in over the biennium, the costs of implementation for a full biennium will be about \$34.6 million general fund, compared to the \$21.9 million general fund appropriated for the 2001 biennium.

Local Assistance Appropriations

Local government reimbursements are included in the 2003 biennium projections at the same level as were funded in the 2001 biennium. This reflects present law funding, and does not consider the additional \$37.1 million intended by the legislature to reimburse local governments in the 2003 biennium. See the discussion in the next section, "Significant Fiscal Issues Not Included in 2003 Biennium Projections."

SIGNIFICANT FISCAL ISSUES NOT IN 2003 BIENNIUM PROJECTIONS

Introduction

There are a number of potential fiscal impacts in the 2003 biennium that are contingent upon other occurrences. These include ballot issues that will or might go before the voters in the general election, the proposed sale of the energy business of Montana Power Company, intangible property taxation, and local reimbursements. In the event that one or more of the following items become reality, there is a potential impact to the 2003 biennium general fund balance. While these cannot be logically included in the projection of a fund balance, it is important that the potential impacts be identified and considered in the discussions. The table below lists these potential issues. It is followed by a brief discussion of each item.

Significant Issues not in Projections 2003 Biennium
<ul style="list-style-type: none">• Motor Vehicle Tax Initiative• Tobacco Settlement Initiative• CI 80 Flat Tax Initiative• MPC Buyout of Major Qualifying Contracts• MPC Divestiture of Energy Business• Intangible Property Taxation• Local Reimbursements

Motor Vehicle Tax Initiative

Legislative Referendum 115 (vehicle tax referendum) is explained in the section describing significant fiscal issues for the 2001 biennium. The issue is the same for the 2003 biennium. If approved, it will reduce deposits to the general fund by \$16.8 million in the 2003 biennium.

Tobacco Settlement Initiative

Constitutional Initiative 82 (tobacco settlement initiative) is explained in the section describing significant fiscal issues for the 2001 biennium. The issue is the same for the 2003 biennium. However, approval of the amendment will reduce fiscal 2003 estimated general fund deposits by 40 percent or \$24.0 million.

CI 80 Flat Transaction Tax

Constitutional Initiative 80 is currently being circulated for signatures. It would eliminate property, income, inheritance, accommodations, and corporate taxes, and limit fuel, motor vehicle and video gambling machine taxes, and replace them with a flat-transaction tax. If this is placed on the ballot and approved by the voters, the flat-transaction tax would be effective January 1, 2002, and the legislature would need to address its implementation during the 2001 session, including defining a “transaction” and considering exemptions. The fiscal impact of this measure is unknown at this time.

MPC Buyout of Major Qualifying Contracts

This item is explained in the previous section describing “Significant Fiscal Issues Not Included in 2001 Biennium Projections”.

MPC Divestiture of Energy Business

This item is explained in the previous section describing “Significant Fiscal Issues Not Included in 2001 Biennium Projections”.

Intangible Property Taxation

SB 211, passed by the 1999 legislature, allowed certain centrally assessed companies to deduct from the market value of their personal property an amount deemed to be due to intangible factors. The deductions will be made for the cost, market and income indicators used to value centrally assessed personal property for property tax purposes and will vary between 5 and 15 percent of each value indicator, depending on industry type. These percentage reductions are phased in at 10 percent in tax year 2000, 66 percent in tax year 2001 and 100 percent in tax year 2002. As a result of this legislation the loss in 95 mill state revenue will be approximately \$0.5 million in fiscal 2001. However, the property tax loss increases in fiscal 2003. Preliminary estimates are a loss of \$3.6 million in fiscal 2002 and \$5.4 million in fiscal 2003. More reliable estimates are expected by mid-summer.

SIGNIFICANT FISCAL ISSUES NOT IN 2003 BIENNIUM PROJECTIONS

Local Reimbursements

The 2003 biennium general fund outlook includes \$72.8 million for local government reimbursements as authorized in Senate Bill 184, passed by the 1999 legislature. This is the same amount that was estimated for local government reimbursements in the 2001 biennium. While it was the legislature's intent to fully reimburse local governments in the 2003 biennium, the

additional \$37.1 million or more required to do so must be considered a new proposal, according to the legislature's chief legal counsel.

Since the 2003 biennium general fund outlook is based on present law revenues and disbursements only, the anticipated increase in local government reimbursements is not included.

BEYOND THE 2003 BIENNIUM

Introduction

Looking beyond the 2003 biennium, there are two issues having potential fiscal impact that are contingent upon either a ballot initiative or economic performance. It is important that the potential impacts be identified and considered in the deliberation of fiscal issues and fund availability. These two issues are discussed below.

Anti-Gambling Initiative

Constitutional Initiative 81 (anti-gambling initiative) - This initiative has been approved by the Secretary of State and is currently being circulated to gain the necessary signatures to place it on the November ballot. If placed on the ballot and approved by the electorate, the initiative will amend the constitution to prohibit all forms of gambling, lotteries, and gift enterprises beginning January 1, 2004. If approved, general fund

deposits will be reduced by \$30.4 million in the 2004 biennium and by \$40.5 million for each biennium thereafter based on estimated gambling revenue deposited to the general fund for the 2001 biennium.

SB 200 Trigger

Senate Bill 200 (business equipment tax reduction) – The 1999 legislature passed Senate Bill 200 which provides a phased-in business equipment tax rate reduction and a progressive exemption from taxation on business equipment. The legislation also provides that beginning January 1, 2004, if the percentage growth in inflation-adjusted Montana wage and salary income from the prior year is at least 2.85 percent, then the tax rate for class eight property will be reduced by 1 percent each year until the tax rate reaches zero. In addition, beginning January 1, 2003, the legislation exempts certain items of personal property intended for rent or lease in the ordinary course of business.

